

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

BOONE COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
December 31, 2013 and 2012

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BOONE COUNTY WATER DISTRICT
BOARD OF COMMISSIONERS
December 31, 2013 and 2012

Charlie Cain, Chairman

Mike Giordano, Vice Chairman

James Daugherty, Treasurer

Tim Alexander, Jr., Secretary

Richard Knock

Of Counsel

David Koenig, Esq.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

Independent Auditor's Report

**To the Board of Commissioners
Boone County Water District**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone County Water District (District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



-Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Boone County Water District as of December 31, 2013 and 2012 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2014 on our consideration of Boone County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boone County Water District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
March 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2013. The information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The District saw an increase in net position during 2013. This was primarily due to capital contributions received from tap on fees and donated lines.

USING THIS ANNUAL REPORT

The financial statements presented herein include all of the activities of the District as prescribed in GASB Statements No. 34. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, and notes to the financial statements. These statements show the condition of the District's finances and the sources of income and the funds expended.

SUMMARY OF NET POSITION

Table 1 provides a summary of the District's Net Position at December 31, 2013 and 2012.

Table 1
Net Position

	<u>2013</u>	<u>2012</u>
Current Assets	\$11,510,248	\$10,632,603
Restricted Assets	2,251,542	2,240,799
Noncurrent Assets/Capital Assets	79,687,896	79,315,223
Deferred Outflow of Resources	<u>63,126</u>	<u>72,951</u>
Total Assets and Deferred Outflow of Resources	<u>93,512,812</u>	<u>92,261,576</u>
Current Liabilities	1,314,471	901,258
Liabilities from Restricted Assets	438,175	436,768
Long - Term Liabilities	<u>5,640,097</u>	<u>6,027,898</u>
Total Liabilities	<u>7,392,743</u>	<u>7,365,924</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	73,659,998	72,903,287
Restricted	2,264,294	2,261,020
Unrestricted	<u>10,195,777</u>	<u>9,731,345</u>
Total Net Position	<u>\$86,120,069</u>	<u>\$84,895,652</u>

The net position is divided into three categories: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

The majority of the net position of the District is included in the first category which consists of capital assets: land, buildings, transmission lines and equipment net of accumulated depreciation. This classification accounts for 85% of the total net assets. It increased \$756,711 from the prior years' figures.

The second category, restricted, represents resources that are subject to restrictions on how they are to be expended.

The third category, unrestricted, may be used by the District to meet current obligations to creditors.

SUMMARY OF CHANGES IN NET POSITION

Revenues

Operating revenues decreased \$907,704 or 7% from 2012 to 2013. This is primarily due to the wet weather conditions during the summer and fall of 2013.

Operating & Maintenance Expenses

Operating and maintenance expenses increased \$504,457 or 19.3% from 2012 to 2013. This is primarily due to increases in employee wages and benefits from accrual of sick time payable of \$253,126, additional consulting fees incurred to support the new management of the District and increased legal and consulting fees incurred in an effort to tighten internal controls within the District.

Depreciation

Depreciation expense for 2013 and 2012 was \$2,231,681 and \$2,173,340, respectively. With the slowdown of the economy dedicated lines donated by contractors as well as the construction of new lines by the District has decreased, therefore holding the annual increase in depreciation expense relatively constant.

Investment Income

Investment income decreased \$4,128 from 2012 to 2013. This number reflects the decrease in rates available at financial institutions.

Interest Expense

Interest expense decreased from 2012 to 2013 in the amount of \$9,046. The decrease resulted from the reduction of overall debt due to annual payments of principal.

Capital Contributions

Capital contributions decreased \$1,068,799 from 2012 to 2013. This was due to in part to a decrease of \$639,125 in dedicated lines donated by contractors as well as a decrease of \$427,322 in grants and other funding.

The following schedule compares the revenues and expenses for the current year and the previous year.

Table 2
Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Water Sales	\$11,839,852	\$12,780,310
Forfeited Discounts	220,965	252,226
Other Water Revenues	<u>171,144</u>	<u>107,129</u>
Total Operating Revenues	<u>12,231,961</u>	<u>13,139,665</u>
Operating Expenses:		
Water Purchased	7,063,168	7,837,827
Operating and Maintenance	3,115,767	2,611,310
Depreciation	<u>2,231,681</u>	<u>2,173,340</u>
Total Operating Expenses	<u>12,410,616</u>	<u>12,622,477</u>
Net Operating Income (Loss)	<u>(178,655)</u>	<u>517,188</u>
Non-Operating Income(Expenses):		
Investment Income	50,870	54,998
Gain on Disposition of Assets	17,689	9,978
Interest on Long-Term Debt	(192,008)	(201,054)
Amortization of Debt Expenses	<u>(9,825)</u>	<u>(9,825)</u>
Net Non-Operating Income(Expenses)	<u>(133,274)</u>	<u>(145,903)</u>
Net Income (Loss)	(311,929)	371,285
Capital Contributions	<u>1,536,346</u>	<u>2,605,145</u>
Change in Net Position	1,224,417	2,976,430
Net Position – Beginning	84,895,652	81,972,114
Prior Period Adjustment	<u>-</u>	<u>(52,892)</u>
Net Position – Ending	<u>\$86,120,069</u>	<u>\$84,895,652</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, the District had \$79,687,896 invested in capital assets including land, buildings, water treatment, transmission and distribution system, equipment, and vehicles, as reflected in the following schedule. This represents a net increase (additions less retirements and depreciation) of \$372,673. During 2013 capital asset additions exceeded the depreciation recorded on capital assets.

Table 3 Summarizes the District's capital assets at the end of 2013 as compared to 2012.

Table 3
Capital Assets at Year End
(Net of Depreciation)

	<u>2013</u>	<u>2012</u>
Land	\$ 256,633	\$ 256,633
Construction in Progress	161,428	124,358
Transmission Lines	102,104,916	99,711,506
Automated Meter System	1,663,110	1,663,110
Rate Study	220,578	220,578
Furniture and Fixtures	151,306	147,904
Machinery & Equipment	1,293,889	1,289,511
Buildings	<u>1,951,622</u>	<u>1,875,270</u>
Subtotal	107,803,482	105,288,870
Accumulated Depreciation	<u>(28,115,586)</u>	<u>(25,973,647)</u>
Total Capital Assets	<u>\$ 79,687,896</u>	<u>\$ 79,315,223</u>

Debt Outstanding

Table 4 illustrates the District's outstanding debt at the end of 2013 and 2012.

Table 4
Outstanding Debt at Year End

	<u>2013</u>	<u>2012</u>
Bonds Payable	\$ 1,790,000	\$ 2,060,000
Capitalized Lease	2,117,999	2,168,150
Notes Payable-KIA	<u>2,119,899</u>	<u>2,148,786</u>
Total Debt	<u>\$ 6,027,898</u>	<u>\$ 6,411,936</u>

All of the required payments were made on the District's outstanding debt in 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's budget for 2014 reflects a 5% increase in revenues while water costs are expected to increase approximately 8%. The water revenue is strictly an estimate since consumption is directly related to weather conditions which are unpredictable. The increase in water costs is partly in response to the budgeted increase in revenues and partly to the increase in water rates that the District expects to pay for the water that they purchase during 2014. Overhead expenses are budgeted to decrease slightly during 2014. As a result, 2014 income is expected to remain approximately the same as that reported in 2013.

FINANCIAL CONTACT

This District's financial statements are designed to present users (citizens, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional information, contact the District Administrative Office at 2475 Burlington Pike, Burlington, KY 41005.

Harry Anness, Director of Operations
Boone County Water District

BOONE COUNTY WATER DISTRICT STATEMENTS OF NET POSITION December 31, 2013 and 2012
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ASSETS		
Current Assets	2013	(Restated) 2012
Cash and cash equivalents	\$ 180,510	\$ 869,532
Reserve for depreciation, cash and certificates of deposit	8,880,435	7,386,828
Accounts receivable		
Customers, net of allowance	1,834,159	1,759,957
Others	230,440	239,380
Assessments receivable	217,126	214,187
Inventories	144,361	148,814
Advances	6,247	-
Prepays	16,277	12,934
Accrued interest income	693	971
Total Current Assets	<u>11,510,248</u>	<u>10,632,603</u>
Restricted Assets		
Debt service account	84,339	87,392
Debt service reserve account	367,182	353,407
Renewal and replacement account	1,800,021	1,800,000
Total Restricted Assets	<u>2,251,542</u>	<u>2,240,799</u>
Capital Assets		
Land, building, transmission system, equipment, and vehicles	107,642,055	105,164,512
Construction in progress	161,427	124,358
Total utility plant in service	107,803,482	105,288,870
Less accumulated depreciation	(28,115,586)	(25,973,647)
Total Capital Assets, Net	<u>79,687,896</u>	<u>79,315,223</u>
TOTAL ASSETS	<u>93,449,686</u>	<u>92,188,625</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred refunding costs on defeased bond debt	63,126	72,951
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>93,512,812</u>	<u>92,261,576</u>
LIABILITIES		
Current Liabilities		
Accounts payable	661,834	627,575
Accrued payroll and taxes	331,854	45,444
Accrued liabilities	3,225	-
Deferred revenue on tap ins	62,070	-
Customer deposits	255,488	228,239
Total Current Liabilities	<u>1,314,471</u>	<u>901,258</u>
Current Liabilities Payable From Restricted Assets		
Bonds payable	270,000	270,000
KIA note payable	65,624	63,887
Capital lease payable	52,177	50,151
Accrued interest payable	50,374	52,730
Total Current Liabilities Payable From Restricted Assets	<u>438,175</u>	<u>436,768</u>
Long-Term Obligations		
Bonds	1,520,000	1,790,000
Capital lease - KRW	2,054,275	2,117,999
KIA loan payable - KRW	2,065,822	2,119,899
Total Long-Term Obligations	<u>5,640,097</u>	<u>6,027,898</u>
TOTAL LIABILITIES	<u>7,392,743</u>	<u>7,365,924</u>
NET POSITION		
Invested in capital assets, net of related debt	73,659,998	72,903,287
Restricted	2,264,294	2,261,020
Unrestricted	10,195,777	9,731,345
TOTAL NET POSITION	<u>\$ 86,120,069</u>	<u>\$ 84,895,652</u>

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY WATER DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

	2013	(Restated) 2012
OPERATING REVENUES		
Water revenue	\$ 11,839,852	\$ 12,780,310
Forfeited discounts	220,965	252,226
Other water revenues	171,144	107,129
TOTAL OPERATING REVENUES	<u>12,231,961</u>	<u>13,139,665</u>
OPERATING EXPENSES		
Water purchased	7,063,168	7,837,827
Operation and maintenance expense	3,115,767	2,611,310
Depreciation	2,231,681	2,173,340
TOTAL OPERATING EXPENSES	<u>12,410,616</u>	<u>12,622,477</u>
OPERATING INCOME (LOSS)	<u>(178,655)</u>	<u>517,188</u>
NON-OPERATING INCOME (EXPENSE)		
Investment income	50,870	54,998
Gain on sale of assets	17,689	9,978
Interest on long-term obligations	(192,008)	(201,054)
Amortization of bond discounts and expenses	(9,825)	(9,825)
NET NON-OPERATING INCOME (EXPENSE)	<u>(133,274)</u>	<u>(145,903)</u>
NET INCOME (LOSS)	<u>(311,929)</u>	<u>371,285</u>
CAPITAL CONTRIBUTIONS	<u>1,536,346</u>	<u>2,605,145</u>
CHANGE IN NET POSITION	<u>1,224,417</u>	<u>2,976,430</u>
NET POSITION, JANUARY 1	<u>84,895,652</u>	<u>81,972,114</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(52,892)</u>
NET POSITION, DECEMBER 31	<u><u>\$ 86,120,069</u></u>	<u><u>\$ 84,895,652</u></u>

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY WATER DISTRICT STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012
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	2013	(Restated) 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 12,163,760	\$ 13,069,540
Paid to suppliers for goods and services	(8,785,457)	(9,467,531)
Paid to or on behalf of employees for services	(985,402)	(946,214)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,392,901	2,655,795
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	51,149	56,131
NET CASH PROVIDED BY INVESTING ACTIVITIES	51,149	56,131
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(384,038)	(370,400)
Transfers of reserve for depreciation, cash and certificates of deposit	(1,493,607)	(2,242,451)
Interest paid on long-term debt	(194,364)	(202,671)
Acquisition and construction of fixed assets	(1,327,930)	(995,524)
Proceeds on sale of assets	17,689	10,251
Contributed capital received	259,921	689,595
(Increase)/decrease in restricted funds		
Debt service account	3,053	9,586
Debt service reserve account	(13,775)	(11,142)
Renewal and replacement account	(21)	50,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,133,072)	(3,062,756)
DECREASE IN CASH AND CASH EQUIVALENTS	(689,022)	(350,830)
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	869,532	1,220,362
CASH AND CASH EQUIVALENTS-END OF YEAR	\$ 180,510	\$ 869,532
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (178,655)	\$ 517,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,231,681	2,173,340
Change in operating assets and liabilities		
Decrease (Increase) in receivables	(68,201)	(70,125)
Decrease (Increase) in inventories	4,453	(27,671)
Decrease (Increase) in advances	(6,247)	-
Decrease (Increase) in prepaid assets	(3,343)	20,066
Increase (Decrease) in accounts payable	34,259	37,534
Increase (Decrease) in accrued liabilities	3,225	(21,216)
Increase (Decrease) in accrued payroll and taxes	286,410	-
Increase (Decrease) in deferred revenue on tap ins	62,070	-
Increase (Decrease) in customer deposits	27,249	26,679
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,392,901	\$ 2,655,795
Non-Cash Capital and Related Financing Activities:		
Capital assets (transmission mains, hydrants, etc.) contributed to the District	\$ 1,276,425	\$ 1,915,550
Supplemental Information		
Interest paid	\$ (194,364)	\$ (202,671)

The accompanying notes are an integral part of the financial statements.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Boone County Water District (District) is a water utility, which provides service to residential and commercial customers in Boone County, Kentucky. The District was created by the Boone County Court under the provisions of chapter 74 of the Kentucky Revised Statutes (“KRS”).

Regulatory Requirements

The District is subject to the regulatory authority of the Kentucky Public Service Commission (“PSC”) pursuant to KRS 278.040.

Basis of Accounting

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District has adopted GASB Statements 60 through 65, and related interpretations issued through December 31, 2013.

Statement No. 65 – *Items Previously Reported as Assets and Liabilities* – Disallows the amortization of bond issuance costs over the life of the bond. Bond issuance costs must now be expensed in the period incurred. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* – Not applicable to Boone County Water District.

Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – Requires Boone County Water District to report the amortized deferred refunding costs on defeased bonds separately as a Deferred Outflow of Resources, instead of reporting this amount net of the related bond liability. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – This Statement incorporates in GASB’s authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* – This Statement modifies Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, to add certain requirements for inclusion of component units in the financial reporting entity.

Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements* – Not applicable to Boone County Water District.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

All activities of the District are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted"; and "unrestricted" components.

Assessments Receivable

Assessments that the District has levied on property owners for the extension of water service to their property are recorded as a receivable at the time of the final public hearing.

Allowance for Bad Debts

The District maintained an allowance for bad debts of \$37,000 at 2013 and 2012, respectively.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgets

In accordance with Kentucky Revised Statute 65.065, the District is required to submit a balanced budget to the Boone County Fiscal Court prior to December 1. The budget includes proposed expenditures and the means of financing them for the upcoming year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined under the First-In, First-Out (FIFO) method. Market is determined on the basis of estimated realizable market values.

Distribution System, Building, and Equipment

Property, plant, transmission lines and equipment are recorded at cost and depreciated over their estimated useful lives using the straight line method. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the "Non-Operating Income (Expense)" portion of results of operations.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

Construction in Progress

Capitalizable costs incurred on projects which are not in use or ready for use at year end are held as "Construction in Progress". When the related asset is ready for use, related costs are transferred to the related asset account.

Capital Contributions

In conformity with the provisions of Governmental Accounting Standards Board Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*, amounts related to customer contributions in aid of construction have been reported as other income in the District's income statement. These contributions represent customer tap-in fees and assessments charged to recover the costs of extensions of the distribution system. The District also includes estimated cost figures for those lines contributed by outside contractors. These amounts have been reduced by rebates paid to the contractor for 50 feet of line each time that a new customer taps into the contributed line.

Income Tax Status

The District is exempt from federal and state income taxes since it is a governmental entity. Accordingly, the financial statements include no provision for income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-Operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sale of fixed assets and interest income.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits consist of checking and savings accounts. They are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the Statement of Net Position as "Cash and Cash Equivalents" and "Restricted Assets". The bank balances for Cash and Cash Equivalents were \$5,560,945 and \$4,756,360 at December 31, 2013 and 2012, respectively; which were the same as the carrying amount. The bank balances for Restricted Assets were \$2,251,542 and \$2,240,799 at December 31, 2013 and 2012, respectively; which were the same as the carrying amount. Investments in Certificates of Deposit were valued at \$3,500,000 and \$3,500,000 at December 31, 2013 and 2012, respectively.

The District's General Bond Resolution dated October 13, 1992 permits investment of monies in each fund, consistent with the contemplated use of such monies, in investment obligations defined as follows:

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

- a) Direct obligations of or obligations guaranteed by the United States of America;
- b) Obligations issued by any of the following agencies: Federal Home Loan Bank System; Export-Import Banks; Government National Mortgage Association; Farmers Home Administration; Federal National Mortgage Association to the extent that such obligations are guaranteed by the Government National Mortgage Association; and any other Federal Agency to the extent that such obligations are backed by the full faith and credit of the United States (other than provided in (a) hereof);
- c) Public housing bonds issued by public housing authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- d) U.S. Dollar denominated deposit accounts fully insured to the holder (up to the \$250,000 maximum coverage) by the Federal Deposit Insurance Corporation in commercial banks, and to the extent not so insured (amounts in excess of \$250,000 maximum coverage), collateralized by obligations described in (a) or (b) above, having at all times a quoted market value at least equal to such uninsured amount plus accrued and undisbursed interest;
- e) General obligations to the Commonwealth of Kentucky;
- f) A pool or fund made up entirely of U.S. Government obligations or obligations guaranteed both as to principal and interest by the U.S. Government ; or
- g) Repurchase agreements for U.S. Government Obligations, secured in the same manner as is provided in (d) above for other deposits.

Effective January 1, 1998, investments are reported at fair value which is determined using the selected basis. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair market value.

Investment obligations are deemed to be part of the fund or account for which they were purchased. Income, interest, gains and losses on an investment obligation are credited or charged to the fund or account for which such an investment obligation was purchased. In the case of the Debt Service Reserve, as long as the aggregate debt service reserve requirement is being maintained, excess income from that fund is to be transferred to the Water Reserve Fund.

The District's investments are categorized to give an indication of the level of risk assumed by the District at December 31, 2013. The categories are described as follows:

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

The District's deposits and investments in each category are as follows for 2013:

	Category 1	Category 2	Category 3	Total
Deposits	\$ 10,945,305	\$ -	\$ -	\$ 10,945,305
Investments	-	-	367,182	367,182
Total	<u>\$ 10,945,305</u>	<u>\$ -</u>	<u>\$ 367,182</u>	<u>\$ 11,312,487</u>

The District's deposits and investments in each category are as follows for 2012:

	Category 1	Category 2	Category 3	Total
Deposits	\$ 10,143,752	\$ -	\$ -	\$ 10,143,752
Investments	-	-	353,407	353,407
Total	<u>\$ 10,143,752</u>	<u>\$ -</u>	<u>\$ 353,407</u>	<u>\$ 10,497,159</u>

In accordance with GASB 40, the District has \$367,182 and \$353,407 in bond sinking funds held in investments in federally backed US Treasury Obligations rated AAA/Aaa at December 31, 2013 and 2012, respectively. The market risk on these investments is negligible.

NOTE 3 – RESTRICTED PORTION OF NET POSITION

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted portion of net position. Invested in capital assets, net of related debt consists of all capital assets net of accumulated depreciation and reduced by outstanding debts, that is attributable to the acquisition, construction and improvement of those assets. The restricted portion of net position consists of assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The unrestricted portion of net position consists of all other assets not included in the above categories.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

Included in restricted portion of net position at December 31,

	2013	2012
Debt Service Account	\$ 84,339	\$ 87,392
Debt Service Reserve Account	367,182	353,407
Renewal and Replacement Account	1,800,021	1,800,000
Subtotal - Restricted Assets	2,251,542	2,240,799
Deferred refunding costs on defeased bond debt	63,126	72,951
Less: non-capital payables to be paid from restricted assets: accrued interest payable	(50,374)	(52,730)
Total Restricted Portion of Net Position	<u>\$ 2,264,294</u>	<u>\$ 2,261,020</u>

NOTE 4 – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method as detailed in Note 1. Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-15 years
Machinery and equipment	5-15 years
Automated meter system	50 years
Transmission lines	50 years
Rate Study	4 years

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012

Asset Type	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
Land	\$ 256,633	\$ -	\$ -	\$ 256,633
Transmission lines	99,711,506	2,393,410	-	102,104,916
Automated meter system	1,663,110	-	-	1,663,110
Buildings	1,875,270	76,352	-	1,951,622
Machinery and equipment	1,289,511	94,120	(89,742)	1,293,889
Furniture and fixtures	147,904	3,402	-	151,306
Rate study	220,578	-	-	220,578
Construction in progress	124,358	860,358	(823,288)	161,428
Subtotal	105,288,870	3,427,642	(913,030)	107,803,482
Accumulated depreciation	(25,973,647)	(2,231,681)	89,742	(28,115,586)
Fixed Assets, net	<u>\$ 79,315,223</u>	<u>\$ 1,195,961</u>	<u>\$ (823,288)</u>	<u>\$ 79,687,896</u>

NOTE 5 – DEFERRED OUTFLOW OF RESOURCES

Miscellaneous Deferred Charges

The discount on the 2001 Series Bonds is recorded as a deferred charge and is being amortized over the life of the bond issues and the defeased bond loss associated with the 1993 Bonds is being amortized over fifteen years. The deferred refunding costs on defeased bond debt were \$63,126 and \$72,951 at December 31, 2013 and 2012, respectively.

NOTE 6 – LONG TERM DEBT

The following is a summary of the District's debt:

Debt type	Balance at December 31 2012	Additions	Principal Payments	Balance at December 31 2013	Current Portion
2004 Revenue Bond	\$ 730,000	\$ -	\$ (115,000)	\$ 615,000	\$ 115,000
2011 Refunding Bond	1,330,000	-	(155,000)	1,175,000	155,000
BCFC Capital Lease	2,168,150	-	(50,151)	2,117,999	52,177
KIA Note	2,183,786	-	(63,887)	2,119,899	65,624
Totals	<u>\$ 6,411,936</u>	<u>\$ -</u>	<u>\$ (384,038)</u>	<u>\$ 6,027,898</u>	<u>\$ 387,801</u>

Revenue Refunding Bonds, Series 2011

In October 2011, the District sold \$1,480,000 of revenue refunding bonds in order to redeem the Water Revenue Bonds, 2001 Series A. The bonds mature on or after October 1, 2020 at a redemption price of 100%. Interest is payable April 1st and October 1st of each year. Maturing bond principal is due October 1st of each year. District infrastructure assets serve as collateral for this debt.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

The Refunding Revenue Bonds, Series 2011, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	1.000%	\$ 155,000	\$ 17,010	\$ 172,010
2015	1.000%	160,000	15,460	175,460
2016	1.000%	160,000	13,860	173,860
2017	1.000%	165,000	12,180	177,180
2018	1.000%	165,000	9,952	174,952
2019-2020	1.05 - 2.00%	370,000	11,230	381,230
Totals		<u>\$ 1,175,000</u>	<u>\$ 79,692</u>	<u>\$ 1,254,692</u>

Revenue Refunding Bonds, Series 2004

In November 2004, the District sold \$1,975,000 of revenue bonds in order to redeem the Water System Refunding and Revenue Bonds, 1993 Series A. The bonds mature on or after October 1, 2018 at a redemption price of 100%. Interest is payable April 1st and October 1st of each year. Maturing bond principal is due October 1st of each year. District infrastructure assets serve as collateral for this debt.

The Refunding Revenue Bonds, Series 2004, are scheduled to mature as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	3.500%	115,000	22,795	137,795
2015	3.600%	120,000	18,770	138,770
2016	3.600%	120,000	14,450	134,450
2017	3.700%	130,000	10,010	140,010
2018	3.900%	130,000	5,070	135,070
Totals		<u>\$ 615,000</u>	<u>\$ 71,095</u>	<u>\$ 686,095</u>

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

Capital Lease – Boone County Fiscal Court

The District established a capital lease related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This capital lease carries an interest rate of 2.00%, and expires on August 1, 2037. District infrastructure assets serve as collateral for this debt.

Remaining debt service requirements on this capital lease are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	2.00%	\$ 52,177	\$ 84,203	\$ 136,380
2015	2.00%	54,285	82,095	136,380
2016	2.00%	56,477	79,903	136,380
2017	2.00%	58,760	77,620	136,380
2018	2.00%	61,133	75,247	136,380
2019-2023	2.00%	344,770	337,130	681,900
2024-2028	2.00%	420,273	261,627	681,900
2029-2033	2.00%	512,308	169,592	681,900
2034-2037	2.00%	557,816	55,324	613,140
Totals		<u>\$ 2,117,999</u>	<u>\$ 1,222,741</u>	<u>\$ 3,340,740</u>

Note Payable – Kentucky Infrastructure Authority

The District established a note payable related to its acquisition of Rural Water lines from the Boone County Fiscal Court, effective during the year ended 2009. This note payable carries an interest rate of 2.70% and matures on June 1, 2037. District infrastructure assets serve as collateral for this debt.

Remaining debt service requirements on this note payable are as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2014	2.70%	65,624	\$ 65,624	\$ 131,248
2015	2.70%	67,408	67,408	134,816
2016	2.70%	69,240	69,240	138,480
2017	2.70%	71,122	51,299	122,421
2018	2.70%	73,055	49,366	122,421
2019-2023	2.70%	396,165	215,940	612,105
2024-2028	2.70%	453,016	158,909	611,925
2029-2033	2.70%	518,026	94,279	612,305
2034-2037	2.70%	406,243	22,430	428,673
Totals		<u>\$ 2,119,899</u>	<u>\$ 794,495</u>	<u>\$ 2,914,394</u>

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

Defeased District Revenue Bonds

In November 2004, the District irrevocably placed \$1,924,562 from the 2004 Series Bond proceeds in trust to be used solely for satisfying scheduled payments of both principal and interest of the 1993 Series A Bonds.

These defeased revenue bonds outstanding at December 31, 2013 are as follows:

Year	1993 Series A
2014	115,000
2015	120,000
2016	125,000
2017	135,000
2018	140,000
	<u>\$ 635,000</u>

These revenue bonds are considered extinguished and do not appear as liabilities on the accompanying Statements of Net position as of December 31, 2013 and 2012. The balance of losses incurred on defeasement was \$24,055 in 2013 and \$28,162 in 2012. This loss is being amortized over fifteen years.

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System (CERS) of Kentucky. It is a cost sharing multiple-employer defined benefit pension plan created by and operated under Kentucky law. CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the state legislature.

For the years ended December 31, 2013 and 2012 plan members were required to contribute 5% of their annual creditable compensation.

Employer contribution rates are actuarially determined. Such contribution rates are determined by the Board of Trustees of the Kentucky Retirement System. They may amend contribution rates as of the first day of July, if it is determined necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. From January 2013 until June 2013, the employer contribution rates were 19.55%. From July 2013 until December 2013, the employer contribution rates were 18.89%. From January 2012 until June 2012, the employer contribution rates were 18.96%. From July 2012 until December 2012, the employer contribution rates were 19.55%.

BOONE COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

The District has made 100% of all required contributions for each of the years ended December 31, 2013, 2012, 2011, 2010, and 2009.

Information about the contributions made by the District and the employees, as well as gross payroll and covered payroll for the past five years follows:

	2013	2012	2011	2010	2009
Gross Payroll-All Employees	\$ 1,079,084	\$ 1,041,875	\$ 1,025,501	\$ 1,053,013	\$ 1,049,417
Gross Payroll-Covered Employees	1,031,100	995,335	979,220	1,003,329	1,003,540
Employee Contribution	51,555	49,558	49,279	50,166	51,125
Employer Contribution Expense	197,928	190,906	175,205	168,206	146,918

Kentucky Public Employees Deferred Compensation Authority

During 1999, the District approved employee participation in a deferred compensation plan administered by the Kentucky Public Employees' Deferred Compensation Authority (Authority). The Authority is authorized under KRS 18A.230-18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate. The District has elected to participate in Plan II, authorized under Section 401(k) of the United States Internal Revenue Code. The plan is funded 100% by payroll deductions from those employees who have elected to participate. The District makes the payroll deduction and then forwards the funds to the Authority.

NOTE 8 – RELATED PARTY TRANSACTIONS

The District purchases water from the joint Boone-Florence Water Commission (Commission). Two of the District's board members also serve as commissioners on the Boone-Florence Water Commission. The Commission is the District's sole source of wholesale water. The Commission was created in a joint venture with the City of Florence, Kentucky to purchase water from the City of Cincinnati, Ohio. During 2013 and 2012, the District purchased \$7,063,168 and \$7,837,827, respectively. During 2013 and 2012, the District leased office space to the Commission at a cost of \$6,000 per year. The District also provided maintenance services to the Water Commission lines and towers, and was reimbursed \$47,677 and \$34,190 for those services during 2013 and 2012, respectively.

NOTE 9 – ECONOMIC DEPENDENCY/CREDIT RISK

Boone County Water District is a government agency operating with one office in Burlington, Kentucky. It grants credit to customers who are primarily local residents and businesses. The District receives all of its operating revenues from customers in Boone County, Kentucky.

BOONE COUNTY WATER DISTRICT NOTES TO THE FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 10 – RECLASSIFICATION IN PRIOR YEAR STATEMENTS

Boone County Water District management has reclassified the position of several accounts on the 2012 Balance Sheet due to the requirements of *GASB 63* (See NOTE 1) which requires accounting for deferred refunding costs on defeased bonds to be held in a section titled *Deferred Outflow of Resources*. This reclassification has a zero net effect on the ending balances of the Balance Sheet.

The 2012 Statement of Revenues, Expenses and Changes in Net Position have been adjusted due to the requirements of *GASB 65* (See NOTE 1) which disallows the amortization of bond issuance costs over the life of the bond. The Statement requires that all accounts be adjusted retroactively to the earliest period disclosed. Therefore, a prior period adjustment, reducing the net position by \$52,892, has been recorded; as if the bond issuance costs were expensed at the date the costs were incurred.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated events through March 13, 2014, the date on which the financial statements were available for issue. The District did not have any events subsequent to report from December 31, 2013 through March 13, 2014 to disclose.



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**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Independent Auditor's Report

To the Board of Commissioners
Boone County Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Boone County Water District as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements which collectively comprise Boone County Water District's basic financial statements and have issued our report thereon dated March 13, 2014.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Boone County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Boone County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Boone County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Condition: We noted that due to the size of the District, and financial considerations, the custody of non-operating accounts, as well as the recording, and reconciliation of cash transactions in the operating accounts are performed by the Office Manager. Compensating controls exist which reduce this risk to a tolerable level.



Criteria: The processes of custody of District cash, recording a transaction in the District's records, and reconciling that transaction with the District's cash accounts should all be segregated.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow District staff to intentionally, or in error, misstate district revenues, expenditures, and/or cash position. Inappropriate custody of cash could lead to District resources being diverted from the District.

Recommendation: The District Commission should vigilantly review the District's cash and CD position and District controls should be closely monitored to ascertain that they are sufficient to maintain the risk of material misstatement at an acceptable level. The District should also consider removing the Office Manager as a signator on District Accounts.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone County Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Van Gorder, Walker & Co., Inc.

Erlanger, Kentucky

March 13, 2014